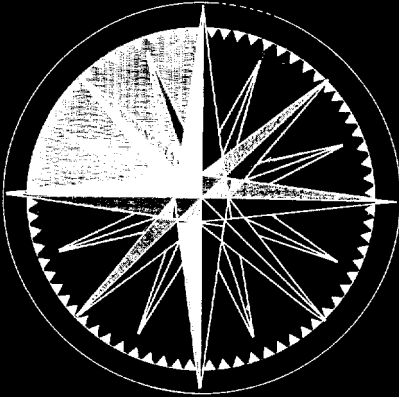


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# SPECIAL REPORT

THE EUROPEAN COMMUNITY: A FURTHER ASSESSMENT

CENTRAL INTELLIGENCE AGENCY  
OFFICE OF CURRENT INTELLIGENCE

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### THE EUROPEAN COMMUNITY: A FURTHER ASSESSMENT

Despite the Common Market's substantial achievements to date--and, to a large extent, because of them--the European integration movement now is facing its moment of truth. For seven years, De Gaulle and the Community have frequently cooperated in pushing forward the union of Europe. The Community, however, has reached a stage in its development where it must emerge as a new center of power or lose its present form. De Gaulle, for his part, has recognized that the Community is a major, if not the main, obstacle to his achieving an alternative "concert" of European states subject to French control.

Whether, or how, the Community will emerge from this fundamental conflict is impossible to say. Powerful economic groups in all the member states are committed to a continuation of the Common Market, and they will throw their weight in favor of a compromise which would preserve as much as possible of the past achievements. De Gaulle, however, may not be content with less than a decisive victory for his views, and some among the Five believe that--if they are ever to force him down--now is the time.

#### The EEC: A Cumulative Development

France's decision to suspend negotiations on agricultural financing and to bring the Common Market virtually to a halt has come at a time when the EEC's achievements have carried it to the threshold of important new breakthroughs.

Establishment of the customs union had been twice accelerated since 1958 and seemed almost certain to be completed long before the target date of 1970. The reduction of intra-Community tariffs by 70 percent and corresponding moves toward a common external tariff have made the EEC the principal market for

the major growth industries of the member states. Their expanding trade in consumer and semiprocessed goods in particular has demonstrated the Community's integrative effects.

Common policies have been adopted within a broad range of economic, fiscal, and social fields, and others have been proposed by the EEC Commission, with the idea of their coming into effect at least by 1970. Without such coordination, the goal of completely free movement of goods, services, and people in the Community will be unattainable, and distortions of trade and competition will prevent consumers from reaping the benefits of an enlarged market.

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Beginnings have been made even on subjects which the EEC treaty deals with superficially, if at all. Agreement has been reached, for example, on the principles to govern a common policy for freight transport. Similarly, studies have been begun--largely at French instigation--to frame policies fostering common scientific and technical research, in recognition of the need for a Community approach in these areas. The five-year (1966-1970) "economic program" presently being drafted is particularly indicative of the Community's ambitions for comprehensive economic integration. This "new stage in the Community's development," as the Commission has called it, is deemed essential to assure balanced growth in and maintain the economic stability of the member states.

Parallel with its internal development, the EEC has become an increasingly weighty factor in international relations. In the Kennedy Round, it is the principal participant along with the US and the UK, and its internal crises may determine the outcome of these most important trade and tariff negotiations. The Common Market's treaty with former French, Belgian, and Italian territories in Africa--the Yaoundé Convention--and the as yet unsigned association with Nigeria, have established a precedent for regional associations and preferential arrangements. This precedent poses a dilemma for the future organization of world trade.

With its present and prospective association or trade agreements with Greece, Turkey, Israel, Lebanon, the Maghreb states, and Spain, the EEC has indicated its potential for influencing the development and orientation of the entire Mediterranean region. Its current negotiations on Austria's request for association will test the viability of the European Free Trade Association (EFTA) and conceivably even affect Western Europe's relations with the Soviet Union.

Economic Union and  
The CAP Proposals

This steady, and in some respects spectacular, progress toward economic union set the stage for the Commission's proposals last March on financing the common agricultural policy (CAP). Although immediately concerned with settling how much money the member states would contribute to and receive from the Community agricultural fund, these proposals were at the same time a prime example of the Community's internal "logic" that movement in one field entails an equivalent advance in another.

The Commission proposed mid-1967--when common prices will exist throughout the Community for grains--as the completion date for the CAP as a whole. That is, a "single market" for all agricultural products would then come into being, and levies on agricultural imports into the EEC would flow

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into a common fund. This would be used to finance community agricultural expenditures.

Since additional funds would be needed, however, the Commission proposed that the Community begin to receive some of the revenues from industrial customs duties in 1967, and all of them by 1972. Furthermore, inasmuch as the Common Market would then have an annual income of some \$3 billion which would not be subject to direct control by any national parliament, the Commission suggested that the European Parliament's budgetary powers be increased.

In making these proposals the Commission sought to play the catalytic role for which it was set up: to cope with an immediate problem in such a way as to maintain the essential balance of advantages among the member states and to move the Community forward in the process. The idea of bringing all agricultural products under the CAP by 1967, for example, reflected the desire not to let the agricultural market become "unbalanced" in favor of France --the major exporter of grains in the Community.

The 1967 date for completion of the CAP was chosen by the Commission because it would coincide with the projected accelerated target date for completion of the customs union. By linking these events and the beginning of the EEC's financial independence, the Commission assumed that pressures

would also be generated to complete other aspects of the economic union, such as harmonizing tax structures. It further believed that in return for the advantages France would reap from the CAP, Paris could be asked to satisfy the growing pressures from the other members for a stronger European Parliament to control the Community bureaucracy.

#### The CAP Proposals and Commission Tactics

This last aspect of the Commission's proposals--its attempt to extract a political concession which De Gaulle had repeatedly rejected--represented a new departure for the Commission. Since the EEC came into effect, the frequently opportunistic but nevertheless effective "alliance" between the Commission and the French has contributed much of the Community's dynamism. When French and Community interests have coincided--most notably in the decision on unified grain prices last December and the mandate given the Commission for negotiating agricultural protection in the Kennedy Round--the other members have usually been carried along. On the other hand, when those interests have differed, the Commission has compromised or avoided confrontation. This determination to avoid a "conflict with De Gaulle" explains at least in part the lack of progress on commercial policy and some aspects of the common social policy.

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The Commission's belief that "political" concessions could be extracted from Paris, if at all, only when heavy French economic interests were at stake apparently motivated its decision last March to take a more aggressive stand. Once the French gained agreement on agricultural financing, scant leverage would remain to the Commission and the other five. Perhaps more important, however, was the conviction that --as EEC President Hallstein said in a recent speech--"economic integration is political in its substance, its motives, and its consequences, and nothing happens automatically in politics."

This new "Hallstein doctrine" in effect de-emphasizes the theory long acted upon by the European federalists that a political union will "inevitably" emerge from economic integration. The Commission's federalists may have feared that failure to act now would lead to a political "union" based on Gaullist ideas of "coordinated" national policies, or to no union at all if De Gaulle's example eventually inspired nationalist tendencies among all of the Six.

The CAP Proposals and De Gaulle

In any case, although the crisis of 30 June was clearly precipitated by the Commission's proposals, it became one only because De Gaulle wanted it to.

There is substantial evidence in accounts of the 29-30 June EEC Council meeting that reservations existed among all the Six on portions of the Com-

mission agricultural financing proposals and that, as of the 29th, various French representatives conceded that additional time would be necessary to work out their differences. Furthermore, it was known that the Commission had proposed a compromise solution. French Foreign Minister Couve de Murville's decision --as chairman of the council--to suspend the negotiations in the early hours of 1 July and his refusal to discuss the possibility of a later session came despite assurances from the other delegates that there was simply need for additional discussions, and despite a request from Hallstein that the Commission be permitted to submit its compromise proposal. During a hasty trip back to Paris on the 29th--and perhaps in a rumored late telephone call on the 30th--Couve had apparently received new instructions that a decision would have to be made at this session or not at all.

French actions since 30 June seem also to bear out the belief that at some point in the negotiations De Gaulle decided on a showdown. Although the French have participated in certain "maintenance" activities they have boycotted meetings of any importance. They have made it clear that any agricultural proposals are now a matter for discussion between governments as an exercise in "traditional" diplomacy and outside the Community machinery. Moreover, while careful not to imply any intention of wrecking the Common Market, French spokesmen have increasingly turned on the Commission as the source of the Community's crisis.

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### Doubt Over French Objectives

What, then, does De Gaulle want? He obviously still wants completion of the CAP in such a way as to assure continued financing of French agriculture. De Gaulle believes, in fact, that France is entitled to such financing in payment for having agreed to accelerate the removal of customs duties on industrial goods. Statements of concern by French farm groups have underscored the political importance to him of Community support in this sector, but the potential political alienation of these groups is probably of less worry to De Gaulle at this time than the prospects of a heavy drain on the French treasury. More generally, completion of the CAP is essential to France if it is to retain economic parity in the EEC.

Moreover, De Gaulle probably wants to achieve this short-run aim in such a way as to demonstrate French independence--that is, political preponderance--in the Community. By holding out for negotiations solely between the member states, De Gaulle must hope to demonstrate that the Commission has no independent political power.

The concern now gripping the Community, however, reflects the suspicion that De Gaulle's objectives go far beyond these short-term goals. It has long been feared, for example, that French support for the projected

merging of the executives of the EEC, the Coal-Steel Community, and EURATOM was motivated principally by the wish to precipitate renegotiations which would open up the possibility of doing away with the "supranational" aspects of the treaties.

The merger has been agreed to, but some members have delayed their ratifications because France might take this opportunity to denigrate the unified executive by changing its membership. Paris has not disguised its desire to bar Hallstein and EEC Vice President Mansholt from the new executive. Should the others concede--and the appointment of new commissioners requires unanimity--it would raise the serious question whether any future commissioner could be expected to fulfill the treaty obligation to carry out his functions independently.

In addition to relegating the Commission to the status of a secretariat, France may intend to cripple the Council of Ministers. This could be accomplished--even without a revised treaty--through an "understanding" among the Six that the majority vote, which becomes effective next January for most important issues, would not in fact be used against the strong national interests of any member state. Majority rule is clearly the most important instrument in the development of the Council into a supranational institution.

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Given De Gaulle's disdain for the European Parliament, which is the basis for eventual democratic control of the Community, it may well be his aim to so change the functioning of the Community that it would be ripe for subordination to the intergovernmental system he has been seeking in the discussions on a European political union since 1960. The Italians have recently voiced such suspicions and there are reports from European diplomatic circles that the French have already begun work on a new treaty to replace the Treaty of Rome. Since the "treaty" will reportedly have only 30 to 35 articles, it may be a proposed revision of Community institutions rather than substantive economic policies. Alternatively, it may be a new version of the 1960 scheme for a political union which would be superimposed on the EEC.

A Compromise?

The prospects for finding some common ground depend largely on whether De Gaulle is stressing his short- or long-term objectives: completion of the CAP consonant with French economic interests or acceptance of French notions of a "Europe of States." The Commission has already retreated by presenting revised agricultural financing proposals which satisfy France's economic requirements and postpone political issues. If Paris accepts them as the basis for a new negotiation, the other five might eventually waive their present insistence that the settlement take place in a Community forum. They might even accept some reconstitu-

tion of the Commission's membership, provided it was put in the context of the long incumbency of the present commissioners and provided the new members were known supporters of the Community.

There will be powerful pressures for such a "compromise." Economic interest groups in all of the Six have already expressed concern that economic activity might stagnate because of a Community slowdown. Anxiety over the consequences of a failure of the Kennedy Round is another strong factor in favor of preserving enough unity to bargain collectively. Coming international discussions on monetary problems--reforming the international monetary system and the threat of a sterling crisis this fall--may also exert pressure on the Six to bury their differences.

Another argument for compromise will be the uncertainty of the Five that their present coalition will hold. Belgian Foreign Minister Spaak, although ready to oppose any direct French attack on the Community's institutions, shies from a confrontation on "lesser" issues that might provoke De Gaulle to break up the Common Market. The Italians have their own agricultural sector to consider, and it is not known what effects the German elections in September will have. A further argument not infrequently heard is that one can outlive De Gaulle, but not oppose him. Finally, it is conceivable that De Gaulle himself might be content for the moment to achieve his short-run objectives because of an uncertainty over what the consequences might be if his intransigence should lead to France's isolation.

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Attempt at Decisive Outcome?

If it is De Gaulle's intention to achieve a complete and decisive victory for his views, however, his chances for success seem questionable. The French boycott since 30 June has emphasized his threat to the Community organization while downgrading the significance of the immediate financial issues. By design, or because of uncertainty on how to proceed, the Five have constituted a de facto coalition whose policy has been "business as usual." This policy has led in fact to the setting of precedents for holding high-level meetings in the absence of one member. The Five are also determined to leave no doubt where the blame lies for any damage to the Community. They have generally rallied to the defense of the Community institutions, and thus far they have been firm in rejecting any undercutting of the majority rule.

In effect, the crisis has opened up fundamental questions of how the Community develops. On one side is the attitude that compromise is best because the Community advances mostly by small steps and not by dramatic breakthroughs. This is countered now by the conviction of many that without some resolution of its internal conflicts the Community may become ineffective.

What, in short, the crisis has done is to fortify the gradually weakening opposition to

the French proposals for a European union which, while providing for economic, defense, and foreign policy coordination, would preserve a veto for each of its members. The negotiations over the past five years on such a union broke down repeatedly because Germany distrusted a French-based "European" defense policy and because the smaller countries feared that any European system without the protection of a truly federal state or of British participation would raise the specter of either French or German domination. The Five probably still recognize that to accept De Gaulle's concept of the EEC would take them dangerously far along the road to acceptance of his views of a Europe divorced from the US and perhaps headed for periodic flirtations with Moscow.

Outlook: The European Context

The crisis of the Common Market is, therefore, the crisis of Europe's postwar search for effective organization and, in view of the US commitment in the postwar period to European union, a crisis affecting vital US interests.

If, contrary to present indications, the Five should accept De Gaulle's views on how the Community should be organized, this would not necessarily mean the end of the Community's line of development. It is likely that even a far less

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ambitious economic union than is presently contemplated in the EEC would ultimately confront its members with the same political questions which the French are endeavoring to avoid. However, the prospect of achieving a breakthrough to an effective European government, through economic union, would be pushed far into the future. If the Six completely fail to compose their differences, it is doubtful the Common Market could survive a lengthy period of stagnation. Although there has been speculation about an "empty chair" for France, it is questionable that the Five would be a viable grouping for very long--if not because of the economic unbalance, then because of the great political preponderance West Germany would have.

In either eventuality--acceptance on the continent of De Gaulle's views, or a lengthy deadlock in the Common Market--Britain's European role might once more be pivotal. It is conceivable that De Gaulle's "Europe of States" could be made palatable to the other Five if its establishment coincided with an offer to Britain of membership in what remained of the EEC. However improbable it may seem at the moment, the prospect that the UK might fill a French vacancy in the Community is also a possibility in the diplomatic maneuvering of the next few months. Nor can it be excluded that London may find the opportunity to renew its eight-year-old dream of a European-wide free trade area.

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